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C O N F I D E N T I A L CARACAS 003216

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TAGS: [ELAB](#) [PGOV](#) [PHUM](#) [VE](#)

SUBJECT: VENEZUELA: REVOLUTIONARY CONTRADICTIONS IN LABOR  
BENEFITS

REF: CARACAS 3164

Classified By: Abelardo A. Arias, A/DCM, for Reason 1.4(b).

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Summary  
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1. (C) Supporters of Venezuelan President Hugo Chavez are stuck on how to roll back market-oriented reforms of worker benefits from the 1990s. The 1999 Constitution reversed changes to the severance, health care, pensions, and housing regimes, replacing them with impractical and, so far, impossible goals of vastly improving the welfare of workers. The GOV pushed through a state-centered social security law in 2002, but a debate among Chavez supporters on whether to exclude the private sector from the new system has impeded application of the new law. Labor leaders see little hope of progress in these areas due to polarization and Chavez's autocratic methods. Meanwhile, Venezuela's hodgepodge social safety net continues to deteriorate, marked by an increase in the informal economy. The GOV is unlikely in the medium-term to reach a societal consensus on reform, to the detriment of Venezuela's workers. End summary.

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Chavez Promised Better Benefits  
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2. (U) Worker wages and benefits in the 1990s deteriorated in a period of economic stagnation. In 1997, the Venezuelan Workers Confederation (CTV) negotiated with the business sector and GOV to overhaul severance payments and the social security (which includes health care, pensions, and housing loans) regime along market lines. The results of those negotiations left workers thinking they had lost out in the name of the free market, leading to a crippling loss of credibility for the CTV (ref). Restoration of worker benefits became an effective campaign theme for then-presidential candidate Hugo Chavez in 1998. Chavez later wrote his campaign promises into the 1999 Constitution. The new Constitution instilled a right to severance payments and implied a return to the old system; rights to universal, state-provided health care and a pension plan were also established. Despite the constitutional language, however, actions have been few. A bill amending the Organic Labor Law to adjust severance payments has been stuck in the National Assembly for three years. In November 2002, during a political crisis and without opposition support, the pro-Chavez majority of the National Assembly passed a new Organic Social Security Law. The organic law requires specific legislation, all still pending, in the areas of health care, severance and pensions, housing, workers compensation, and worker safety. None of these bills has been mentioned by the majority leaders as a priority for the current session.

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The Severance Package Dilemma  
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3. (C) Severance payments (prestaciones) traditionally had been calculated based on the employee's current salary times the number of years worked, though additional factors could multiply this figure by up to ten times. As a result, instead of raises, employers paid more in bonuses and food allowances, so much so that by the mid-90s salaries accounted for just 30 percent of total income of workers. The 1997 reform changed the calculations to a monthly basis on all income and imposed caps on severance payments. Workers with many years of service at a company or government agency complained they were hurt by the reform. CTV legal advisor Leon Arismendi, who negotiated the 1997 reform, told poloff that workers with more than 7.5 years on the job lost some benefits. The 1997 reform also permitted workers to draw up to 80 percent of their severance in advance to purchase a house or cover some other large expense. Rather than let debts to workers pile up, employers began to pay "severance" on an annual basis. This essentially eliminated the severance payment's function as a de facto unemployment

benefit.

14. (C) Orlando Chirino, a national coordinator of the

pro-Chavez National Workers Union (UNT), said his labor confederation is fighting to restore the old severance system, free of caps, with retroactivity back to 1997 (with interest). Venezuelan labor analyst Rolando Diaz told poloff such rhetoric is disingenuous, as such payments would be astronomical for employers, especially the public sector. He pointed out that even the Chavez administration has not paid the arrears owed to public workers, which Diaz called financially impossible. (The GOV also owes severance pay to the 18,000 ex-workers of PDVSA.) The GOV, in fact, still works under the 1997 severance system. Pro-Chavez Deputy Ismael Garcia told poloff October 11 that retroactivity is probably not feasible. As an alternative, Garcia said his Podemos party would soon propose a bill to allow workers to convert severance packages into credits for housing loans.

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Rationalizing Social Security  
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15. (C) Though workers contribute to Venezuela's health care system, the Venezuelan Social Security Institute (IVSS), most receive medical attention at specialized or private clinics. Arismendi said the GOV decided in 1992 to open IVSS services to all patients regardless of ability to pay. This resulted in a precipitous decline in the quality of IVSS care to the point that most government agencies (including IVSS) established their own clinics for their workers. Large private companies began to offer medical insurance policies for attention at private clinics. Employers also opted for private alternatives in pensions and housing loans, as IVSS' cash reserves for pensions were routinely raided by GOV administrations. Unions complained that by 2000, workers were being asked to shoulder the costs of the decrepit IVSS system while still contributing to other medical and pension plans.

16. (C) The 2002 Organic Social Security Law sought to bring the patchwork of separate health/pension/housing plans under a re-constituted IVSS. Article 86 of the Constitution, however, gave all Venezuelans the right to universal, comprehensive, and public health care that could be financed by direct or indirect contributions of the participants. Article 86 effectively prohibits private health care companies from participating in the medical system, though it left the door open with regard to pensions. A bill proposed in March 2001 by then-Vice President Isaias Rodriguez had tried to create a state-run medical system with a mixed pension plan. Rodriguez's plan was denounced, however, by Chavez hard-liners as a "privatization" plan. Arismendi predicted that the GOV's refusal to negotiate with the CTV and Fedecamaras (both anti-Chavez entities) would impede any new efforts at reform.

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Venezuela: A Neo-Liberal Paradise  
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17. (C) Venezuela's debate over worker benefits is taking place in the midst of a decline in the formal employment sector. A National Assembly report on labor said the formal-informal employment ratio had nearly reversed, going from 58%-42% in 1990 to 45%-55% in 2002. Leon estimates, by taking out unemployment, that only 30% of workers (about 3.6 million workers) receive some kind of formal benefit package. Froilan Barrios, a former Chavez supporter and lead drafter of the Constitution's labor provisions, said the GOV has an outstanding debt with the workers to achieve real reform and to restore their living conditions to those of previous eras. He said the Chavez administration has become comfortable with stopgap measures to alleviate social problems (the "missions," decrees prohibiting firing of workers, etc.). The result, he concluded, are the lowest labor costs in Venezuelan history, which he said had created a "neo-liberal paradise."

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Comment  
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18. (C) Chavez came into office promising to reverse neo-liberal reforms that workers rightly or wrongly blamed for their shrinking benefits. After five years of Chavez

rule, however, the formal employment sector continues to wither and unemployment remains high. Serious labor reform seems unlikely given the constitutional straitjacket against private sector participation and Chavez's autocratic style of governance. With oil prices and state revenues up, Chavez can probably afford to neglect the labor market in the

short-term. In the medium term, however, he will need to find practical solutions for the working class or risk spurning a significant constituency.

McFarland

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